

Message Text

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ORIGIN OPIC-06

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FROM OPIC

E.O. 11652: N/A

TAGS: EINV

SUBJECT: PHELPS, DODGE CLAIM

1. SUMMARY: PHELPS DODGE (US) HAS FILED AN INCONVERTIBILITY CLAIM WITH OPIC WITH RESPECT TO AN INVESTMENT IN ZAMBIA. OPIC SEEKS POST'S ASSISTANCE IN PERSUADING GRZ TO MAKE HARD CURRENCY AVAILABLE TO PHELPS DODGE.

2. PHELPS DODGE SVENSKA METALLVERKEN INTERNATIONAL CORPORATION ("PDSMI") HAS FILED INCONVERTIBILITY CLAIM WITH OPIC IN RESPECT OF PDSMI'S INVESTMENT IN METAL FABRICATORS OF ZAMBIA, LTD. ("ZAMEFA"). THE CLAIM IS FOR APPROXIMATELY KW186,000 IN DIVIDENDS AND KW67,000 IN CONSULTANCY FEES. ZAMEFA HAS MADE PAYMENT OF THESE AMOUNTS IN KWACHA TO PDSMI'S BARCLAY ACCOUNT AND CONVERSION TO DOLLARS HAS BEEN DULY APPROVED

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BY ' MINISTRY OF FINANCE . BASIS OF CLAIM IS FAILURE OF,BANK OF ZAMBIA,FOR MORE THAN 60 DAYS AFTER KWACHA WERE PLACED IN FX QUEUE BY BARCLAY'S, TO MAKE AVAILABLE DOLLARS NEEDED FOR CONVERSION.

3. PRELIMINARILY, OPIC BELIEVES PDSMI CLAIM VALID. OPIC ADVISED BY ZAMBIA DESK THAT POST KWACHA USAGE, WHILE

VARYING WIDELY MONTH TO MONTH, IS SUCH THAT ON AVERAGE

APPROXIMATELY THREE MONTHS WOULD BE REQUIRED TO UTILIZE KWACHA WHICH OPIC WOULD RECEIVE IF IT PAID PDSMI CLAIM. OPIC SEEKS POST'S CONFIRMATION THAT THIS USE SCHEDULE IS SUBSTANTIALLY ACCURATE.

ADDITIONALLY, IN ORDER TO ENABLE PDSMI TO AVOID USING UP INCONVERTIBILITY COVERAGE WHICH IT COULD NEED AT A LATER DATE, OPIC SEEKS POST'S ASSISTANCE IN OBTAINING GRZ

REMITTANCE HIGHER PRIORITY AND MAKE AVAILABLE DOLLARS NEEDED FOR CONVERSION OF PDSMI KWACHA.

4. FUNDS IN QUESTION ARE AS FOLLOWS:

A) PDSMI PORTION OF FINAL ZAMEFA DIVIDENDS FOR FISCAL YEARS ENDING FOLLOWING DATES:

I) YEAR ENDED 3/31/76, DECLARED 11/19/76, PLACED IN QUEUE BY BARCLAY'S 4/18/77, KWACHA 39,000;

II) YEAR ENDED 3/31/77, DECLARED 8/8/77, PLACED IN QUEUE 2/6/78, KWACHA 88,200;

III) YEAR ENDED 3/31/78, DECLARED 12/9/77, PLACED LIMITED OFFICIAL USE

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IN QUEUE MARCH 1978, KWACHA 58,800; AND

B) TECHNICAL ASSISTANCE FEES FOR QUARTERS ENDING MARCH, JUNE, SEPTEMBER AND DECEMBER 1977, PLACED IN QUEUE 9/77 AND 12/77, AMOUNTING TO THE KWACHA EQUIVALENT OF DOLLARS 5,625, DOLLARS 5,625, DOLLARS 31,875 AND DOLLARS 31,875, RESPECTIVELY. (THESE FUNDS CONTRACTUALLY DENOMINATED IN DOLLARS, HENCE NO KWACHA FIGURE AVAILABLE)-

5. THREE GROUNDS FOR POST'S REQUEST FOR CENTRAL COOPERATION APPEAR AVAILABLE. FIRST, EXPORT DEVELOPMENT CORPORATION, CANADIAN COUNTERPART OF OPIC, HAS INFORMED OPIC THAT IN APRIL, EVEN WELL BEFORE CONCLUSION OF GRZ-IMF AGREEMENT, IT INTERVENED SUCCESSFULLY THROUGH HIGH COMMISSIONER TO SECURE FROM GRZ HARD CURRENCY SOUGHT BY TWO CANADIAN FIRMS SEEKING REMITTANCE OF DIVIDENDS AND TECH ASSIST FEES. APPARENT GRZ MOTIVATION IN ACCEDING TO THIS REQUEST WAS AVOIDANCE OF UNFAVORABLE PUBLICITY LIKELY TO RESULT FROM CANADIAN FIRMS' FILING INCONVERTIBILITY CLAIMS WITH EDC. HIGH COMMISSIONERS INTERVENTION WAS, ACCORDING TO EDC, WITH INDICO (ALSO AN INVESTOR IN THE CANADIAN FIRMS' PROJECT) WHICH IN TURN APPARENTLY PREVAILED UPON GRZ

TO MOVE THE FIRMS' APPLICATIONS UP IN THE QUEUE.
CONVERSION, EDC REPORTS, WAS MADE TWO WEEKS AFTER VISIT OF

CANADIAN HIGH COMMISSIONER TO INDECO DIRECTOR'S OFFICES.

6. SECOND, ON MARCH 19, 1978 PDSMI VICE PRESIDENT
JULIO BAGUE WROTE TO MINISTER OF INDUSTRIES CHISUPA RE-
QUESTING ASSISTANCE IN SOLVING DIVIDEND REMITTANCE PROBLEM.
ON MARCH 27, CHISUPA REPLIED, INTER ALIA, THAT "... IMF
HAVE MADE INDICATIONS THAT THEY WILL GIVE ZAMBIA A LOAN
EQUIVALENT TO DOLLARS 390,000,000. ONE ONLY HOPES THAT WIT
WITH THIS FACILITY WE SHALL BE IN A POSITION TO HONOUR
OBLIGATIONS WITH OUR BUSINESS PARTNERS. I WILL BE WRITING
THE HONOURABLE MINISTER OF FINANCE IN CONNECTION WITH
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EXTERNALIZATION OF REMITTANCES AND DIVIDENDS." IT IS
POSSIBLE THAT CHISUPA INITIATIVE MAY HAVE INCLINED MINFIN
TO ACCORD PDSMI'S CONVERSION APPLICATION HIGHER PRIORITY.

7. THIRD, AS PDSMI HAS INDICATED TO OPIC, AND AS POST MAY
ALSO BE AWARE, GRZ SEEKS AND NEEDS PDSMI TECHNICAL
ASSISTANCE FOR START-UP OF DOMESTIC PRODUCTION OF COOPER
ELECTRICAL WRAPPING WIRE. THIS TECH AID REQUIREMENT
SHOULD CONSTITUTE ADDITIONAL GROUND ON WHICH IT WOULD
BE WILLING TO ASSIST PDSMI WITH REMITTANCE PROBLEM.

8. OPIC APPRECIATES POST'S ASSISTANCE IN THIS MATTER AND
WELCOMES ANY POST SUGGESTIONS OR COMMENTS ON APPROACHES,
OTHER THAN THOSE MENTIONED PARAS 5, 6 AND 7, TO RESOLUTION
OF THE PROBLEM.

9. OPIC AND DEPARTMENT BOTH UNAWARE OF WHAT GRZ'S PRACTICE
HAS BEEN SINCE MARCH DEVALUATION IN EXTERNALIZING RE-
MITTANCES THAT HAD BEEN IN QUEUE PRIOR TO THAT ACTION.
FOR THAT REASON NO DOLLAR EQUIVALENTS GIVEN FOR KWACHA
AMOUNTS OF DIVIDENDS QUOTED IN PARA 2 ABOVE. WOULD APPREC-
IATE ANY CLARIFICATION ON THIS POINT. VANCE

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